

INFRAx Cvba (/gws/en/esp/issr/94604290)



Fitch Affirms Infrac at 'A'; Outlook Stable

Fitch Ratings-London-13 December 2016: Fitch Ratings has affirmed Infrac Cvba's Long-Term Issuer Default Rating (IDR) and senior unsecured rating at 'A'. The Outlook on the IDR is Stable.

The affirmation reflects our view of the group's standalone profile of 'A-' and a one-notch uplift for moderate links with municipalities within the Flemish Community. The standalone credit profile reflects Infrac's solid business profile as a network-focused multi-utility covering from 22% to 30% of Belgium's Flemish region. It also takes into account positive regulatory changes that allow Infrac to gradually reduce leverage largely incurred due to tariff under-recovery in previous regulatory periods.

KEY RATING DRIVERS

Strong Business Profile

Infrac's strong business profile derives from its operations as an electricity and gas distribution system operator (DSO, 72% of 2015 EBITDA), complemented by sewerage operations (17%) as well as long-term media cable rental income (7%) from Telenet NV. Fitch views the company's core regulated networks operations as supportive to its ratings.

New Regulatory Framework

Infrac's tariffs for electricity and gas are set by VREG, the Flemish regional regulator, under a price cap tariff methodology. The operating costs are split into exogenous, such as volume differences, and endogenous, which are determined by a trend analysis in comparison with sector peers. The trend factors set by VREG over 2017-2020 for endogenous costs, after allowing for a 1.4% inflation rate for 2017, should allow for mildly positive increases of the price cap of around 1% for electricity and 3% for gas annually. The WACC reduction for 2017-2020 to 5.0% from 6.1% in 2016, driven by lower interest rates, should be partially mitigated by capex-driven increase in the regulatory asset base.

Tariff Deficit Recuperation

The value of 2010-2014 accumulated regulatory differences and unsold green power (GPC) and cogeneration (CHP) certificates peaked at EUR0.5bn at end-2015 and end-2014. However, we assume that Infrac will be able to recuperate the whole amount of historical tariff deficits and dispose stocks of certificates throughout our five-year rating horizon. This is due to the VREG approval of a five-year recuperation period for the regulatory differences from 2010-2014, good progress in disposal of certificates by Infrac in 2016 and introduction of a special tax to compensate Flemish DSOs for the obligation to purchase certificates.

Group Structure Limitations

Infrac's group structure is complex due to a number of affiliated companies, its legal status as a cooperative as well as existence of several boards of directors (at Infrac and each affiliated DSO) and shareholders. Moreover, Belgian accounting principles do not require preparation of consolidated statements for the group or cash flow statements for the individual DSOs. These factors represent a credit constraint of one notch compared with the standing of Infrac group within our sector navigator for network utilities.

Municipal Links

Infrac's links with its owners stem from the Belgian utility sector's legal and institutional framework, which supports public ownership of distribution networks. The eight DSOs and asset owners within the Infrac group are fully municipality-owned public legal entities active solely in 126 municipalities in Belgium (AA/Negative), of which 122 are in the Flemish Region and four in the Walloon Region. In our view, their legal nature, high strategic importance to the regions, control over key decision making and tangible support in the sewerage segment warrant a one-notch rating uplift.

DERIVATION SUMMARY

Infrac has a comparable business profile to other network-focused multi-utility companies rated by Fitch such as Acea SpA (BBB+/Stable) and Iren SpA (BBB-/Stable), but also to pure DSOs like Italgas SpA (BBB+/Stable) and Madrilena Red de Gas SAU (BBB-/Stable). Relative to peers, Infrac is virtually fully concentrated on network activities and its projected leverage is lower. The credit constraints for Infrac are the complex group structure and the lack of a joint debt guarantee to Infrac by all affiliated DSOs. The latter is mitigated by the overall comparable profiles of the individual DSOs as well as by the tight integration within the Infrac group.

KEY ASSUMPTIONS

Fitch's key assumptions within our rating case for the issuer include:

- Stable income in all business areas
- Recuperation of the accumulated regulatory deficit and disposal of GPC and CHP stocks within the five-year projection period
- Capex of EUR1bn within the five-year projection period
- Profits distributed as dividends.

RATING SENSITIVITIES

Future Developments That May, Individually or Collectively, Lead to Positive Rating Action:

- Funds from operations (FFO) adjusted net leverage sustainably below 3.5x.
- Greater regulatory clarity with full and timely resolution of the regulatory differences, GPC and CHP carry.

Future Developments That May, Individually or Collectively, Lead to Negative Rating Action:

- FFO adjusted net leverage sustainably above 4.5x.
- Worsening in the regulatory environment with uncompensated or increasing regulatory differences, GPC and CHP carry or tax burden.

LIQUIDITY

Adequate Liquidity

Infrac's liquidity is adequate. As of end-November 2016 Infrac had EUR48m of cash and undrawn short-term committed credit lines of EUR200m compared to debt due in the next 12 months of EUR33m (of which EUR8m by end-2016).

Contact:

Principal Analyst

Timo Tikkala

Analyst

+44 20 3530 1202

Supervisory Analyst

Artur Galbarczyk

Associate Director

+48 22 338 6291

Fitch Polska S.A.

Krolewska 16
00-103 Warsaw

Committee Chairperson
Arkadiusz Wicik
Senior Director
+48 22 338 6286

Media Relations: Peter Fitzpatrick, London, Tel: +44 20 3530 1103, Email: peter.fitzpatrick@fitchratings.com.

Summary of Financial Statement Adjustments - Fitch treated financial income from the lease contract with Telenet as operating income as well as added operating lease equivalent to total debt. Additional information is available on www.fitchratings.com.

Applicable Criteria

Criteria for Rating Non-Financial Corporates (pub. 27 Sep 2016) (<https://www.fitchratings.com/site/re/885629>)

Parent and Subsidiary Rating Linkage (pub. 31 Aug 2016) (<https://www.fitchratings.com/site/re/886557>)

Recovery Ratings and Notching Criteria for Utilities (pub. 04 Mar 2016) (<https://www.fitchratings.com/site/re/878227>)

Additional Disclosures

Dodd-Frank Rating Information Disclosure Form (https://www.fitchratings.com/creditedesk/press_releases/content/ridf_frame.cfm)

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